

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 TAIPEI 001919

SIPDIS

SENSITIVE

DEPT PASS TO AIT/W  
DEPT FOR EAP/ TC

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [ETRD](#) [EINV](#) [EWWT](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT ECONOMIC ROUNDUP - FIRST QUARTER  
2005

REF: A) 04 TAIPEI 84, B) 04 TAIPEI 2592, C) 04 TAIPEI  
3323, D) TAIPEI 268

Summary

-----

1. (U) During the first quarter of 2004, EVA Air and China Airlines (CAL) both made progress in establishing air cargo ventures in Mainland China. The airlines also applied for permission to fly through PRC airspace on flights to Europe and other parts of Asia. Taiwan's Investment Commission fined the Chairman of China's Semiconductor Manufacturing International Corp., Richard Chang, for alleged illegal investment in Mainland China. Evergreen Group announced a major investment in Ningbo Harbor near Shanghai. Taiwan's Financial Supervisory Commission also approved new Mainland investment categories for Taiwan financial institutions. (End Summary.)

Travel and Transportation

-----

2. (SBU) In an effort by Taiwan's air cargo leaders to take advantage of capacity shortages in the Mainland, EVA Airways on March 23 confirmed plans to work with Shanghai Airlines in forming an air cargo venture aimed at exports from northeast China. EVA Air President K.W. Chang told AIT/T that EVA would transfer one MD-11 cargo aircraft to the new venture and take an active role in management. EVA will have a 40-percent stake in the venture. Earlier in the month, Taiwan's China Airlines (CAL) announced that it would finalize its long-delayed investment in China Air Cargo (CAC) in April or May. CAL and CAC have been discussing this proposal since late 2002. CAL will buy 25 percent of CAC's stock. Both Taiwan and PRC authorities have approved the investment. In addition, CAL reached an agreement with Hong Kong's Dragon Airlines on March 19 under which Dragon will rent a CAL cargo plane for one year to provide joint cargo service from Hong Kong to New York.

3. (SBU) Both of Taiwan's major carriers, CAL and EVA, applied to Taiwan's Civil Aeronautics Administration (CAA) on March 6 for permission to overfly mainland China. CAL wishes to overfly the PRC on flights to Frankfurt, New Delhi and Hanoi. EVA would do so on flights to Paris. In 2003, both CAL and EVA applied for overflight permission for flights to Europe during the Iraq war, but only one CAL flight actually passed through PRC airspace. On April 25, EVA Air's Chang told AIT/T that the PRC had already granted overflight permission, but Taiwan's Mainland Affairs Council (MAC) had still not responded to the request. Chang does not expect MAC to respond any time soon. He speculated that some Taiwan government agencies fear that giving Taiwan airlines permission to overfly the PRC will lead PRC airlines to request permission to overfly Taiwan.

4. (U) On March 15, MAC announced that Hong Kong and Macau Airlines Cathay Pacific, Dragon Air and Air Macau and travel agents would be required to provide MAC with the names of persons traveling from Taiwan to the PRC. CAA gave the airlines until April 25 to begin reporting the passenger lists.

Investment and Trade - SMIC...

-----

5. (U) The Investment Commission of Taiwan's Ministry of Economic Affairs on March 31 fined Semiconductor Manufacturing International Corp. (SMIC) Chairman Richard Chang NTD 5 million and ordered him to withdraw his investment in the Mainland firm. Chang is a former employee of Taiwan Semiconductor Manufacturing Co. (TSMC). Two years ago, the IC attempted to investigate Chang's investment but was unable to find enough evidence that he had personally invested in the firm. However, late last year SMIC released more detailed financial data in order to list on Hong Kong and U.S. stock exchanges, enabling the Commission to reach its decision. Richard Chang is a U.S. citizen of Taiwan origin. He has claimed that because he is a U.S. citizens

Taiwan authorities have no jurisdiction over his investment activities.

TSMC...

SIPDIS  
-----

16. (U) On March 19, TSMC (Shanghai) Company Limited announced that it plans to expand its Mainland presence by establishing a design service center with a staff of 40. TSMC (Shanghai) released recruitment advertisements seeking

SIPDIS  
layout, circuit design and computer aided design (CAD) technicians. TSMC will soon submit its application to Taiwan's Investment Commission for approval.

Evergreen Group...  
-----

17. (U) Evergreen Group via its Italian shipping subsidiary, LLOYD Triestino China Limited (LT), signed a joint investment contract in January with the PRC's Ningbo Harbor near Shanghai to invest in two container berths. Evergreen Marine Corp. officials told AIT/T that the investment totaled USD 250 million. According to media reports, the Italian subsidiary will own 50 percent of the venture. Earlier, the Group had invested in some berths in Shenzhen. Evergreen also announced on April 10 that the PRC approved its plan to set up a marine shipping branch office in Shenzhen through the Italian subsidiary. Evergreen is the first Taiwan marine shipping company to set up such a branch office in the PRC.

18. (U) On January 1, Taiwan Salt, which is 40 percent government owned, revealed that it had applied for Taiwan approval to invest in the Mainland. To avoid high Mainland duties, Taiwan Salt plans to set up a subsidiary in Shanghai for packaging and marketing its cosmetics products. Many state-controlled enterprises are restricted from investing in the PRC.

19. (U) Taiwan Cellular Corp. (TCC) announced in January that it would establish its first PRC customer service company in Dalian. TCC and its mainland partner each own a 50-percent stake in the newly established company. Later, TCC announced that it would set up another customer service technology office in Xiamen for paging and service consultation.

110. (U) Taiwan's Board of Foreign Trade announced February 18 that it would lift the ban on imports from the PRC for 16 product categories. These include small refrigerators; TV signal boosters; and several wireless IT components, such as USB adapter, printer adapter, and LAN access point. After this latest round of trade liberalization, more than 78.3 percent of product categories listed in the Taiwan tariff schedule can be imported from the Mainland.

Finance  
-----

11. (U) During the quarter, the Financial Supervisory Commission (FSC) approved two new categories of investment in the PRC by Taiwan financial institutions. On February 14, the FSC announced that Taiwan securities firms could invest in PRC securities companies. However, these PRC firms are not permitted to provide services to individuals or enterprises in Taiwan. On March 3, the FSC also announced that financial holding companies' overseas subsidiaries could apply to establish representative offices in the PRC. Immediately after the Bureau of Monetary Affairs released the application procedures for such investment on March 18, Fubon Financial Holding Company made public its plans to set up a representative office in Dongguan via its Hong Kong subsidiary.

Exchanges  
-----

12. (U) The Chairman of the Taiwan Farmers Association (TFA), Gu Yuan-jun, told Taiwan's local press on March 15 that he planned to visit Beijing to talk about promoting Taiwan's fruit exports. The PRC has offered to open up its agricultural markets to Taiwan imports. According to Gu, it has also offered to set up a Taiwan fruit-trading center in Shanghai. Chairman Gu said that the TFA planned to set up three Taiwan agricultural trade centers in Shanghai, Beijing and Guangzhou.

13. (U) In what the press called an unplanned meeting, Fu Don-Cheng, Director of the MAC Economic Affairs Department met on February 28 with Dai Xiaofeng, Director of the Exchanges Bureau of the PRC's Taiwan Affairs Office TAO on the Taiwan-controlled island of Matsu. The two were

visiting Matsu separately to observe the operations of the mini-links. According to media reports, the two discussed several cross-strait issues, including cooperation on criminal investigations, cargo transportation, and agricultural trade.

PAAL